Report

of the

Examination of

Connie Lee Insurance Company

New York, NY

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 23, 2002

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Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CONNIE LEE INSURANCE COMPANY
New York, NY

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Connie Lee Insurance Company ("Connie Lee," or the "company") was conducted in 1998 as of December 31, 1997. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Territory and Plan of Operations
Affiliated Companies
Run-off of Company
Reinsurance
Financial Statements
Accounts and Records

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Connie Lee Insurance Company is a Wisconsin domiciled insurer authorized to transact surety and financial guaranty insurance. From 1988 through 1997 the company operated as a financial guaranty insurer of debt securities issued by colleges, universities, and similar institutions. In 1998 the company discontinued writing new business, and at present its entire portfolio of insurance risks is in run-off.

The company was incorporated January 11, 1968 under the name Sentry Indemnity Company, and was established as an operating subsidiary of Sentry Insurance a Mutual Company (Sentry). Effective December 17, 1987, all of the insurance risk liabilities on the company's then-existing book of business were transferred to an affiliated Sentry group reinsurance pool under a block assumption reinsurance treaty. Following the 1987 block assumption, the company was purchased by College Construction Loan Insurance Association (CCLIA), then a subsidiary of the Student Loan Marketing Association (Sallie Mae). On January 21, 1988, the company's name was changed to Connie Lee Insurance Company, the name presently used by the company.

CCLIA was incorporated on February 13, 1987, and was organized as a government-sponsored enterprise authorized by Congress under Title VII of the Higher Education Act (Title VII). In 1988 CCLIA sold capital stock to the United States of America through the Department of Education, and sold additional shares of capital stock to Sallie Mae. CCLIA was founded with a governmental mandate to provide credit enhancement for higher education financing, and acquired Connie Lee to serve as a wholly owned insurance subsidiary dedicated to providing financial guaranty insurance for debt issued by institutions of higher education, as required under Title VII.

Connie Lee established operations in 1988 as a reinsurer of financial guaranty insurance, restricted to the assumption of reinsurance on bonds of colleges, universities, and teaching hospitals. In October of 1991, Connie Lee received an AAA rating as a primary insurer from Standard and Poor's Corporation, and the company initiated direct issuance of financial guaranty insurance.

On September 30, 1996, the Omnibus Consolidation Appropriation Act, 1997 was signed into law. The 1997 act removed restrictions on CCLIA's charter and authorized CCLIA to participate in all sectors of financial guaranty insurance. The 1997 act also required CCLIA to purchase the federal government's (United States Department of Education) equity interest in CCLIA. In November of 1996, College Construction Loan Insurance Association (CCLIA) changed its name to Construction Loan Insurance Corporation (CLIC). In February, 1997, CLIC purchased all of the shares of its common stock that were held by the Department of Education.

Effective December 18, 1997, Ambac Assurance Corporation (Ambac Assurance) purchased 100% ownership interest of CLIC, and ultimate ownership and control of Connie Lee Insurance Company thereby transferred to Ambac Financial Group, Inc. (Ambac Financial). Connie Lee operations were subsequently moved to the offices of Ambac Financial in New York, NY.

In 1998 the company suspended writing new business, and its entire portfolio of risks for financial guaranty insurance business entered into run-off. The business plan of Connie Lee is to maintain its present status as an inactive insurer and to run-off its existing book of business.

Ambac Assurance is the principal operating company in the Ambac Financial group, and provides various operating functions and services on behalf of its affiliates including Connie Lee pursuant to numerous intercompany relationships and agreements. Further discussion of the company's holding company organization, description of the significant affiliates of Connie Lee, and description of intercompany transactions and agreements is included in the section of this report captioned "Affiliated Companies."

The company did not have any direct written premium in 2001. The company is licensed in the District of Columbia, Puerto Rico, and in all states except Virginia.

The following table provides a summary of the net insurance premiums written by the company in 2001. All premiums relate to financial guarantee insurance coverages for timely payment of principal and interest in the event of default on the education and health care facility obligations insured. The run-off of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Financial guaranty	$0	$54,564	$565,564	$(511,000)
Total All Lines	$0	$54,564	$565,564	$(511,000)

Connie Lee does not have any direct written premiums, and its current-year assumed written premiums are 100% retroceded. The company's annual earned premiums are derived solely from premiums that were remitted to the company in prior-years as up-front premium at the inception of multiple-year financial guaranty policies.

Premiums written by the company in prior-years are recorded in the company's accounts as unearned premium liability that is carried forward from year-to-year until fully earned during successive insurance coverage-years. Premiums for current-year coverages are reversed out of unearned premium liability and are either earned by the company or are ceded as written premium. Reinsurance ceded in 2001 reflected $511,000 of 2001 current coverage-year premiums written on a direct basis in prior years and ceded as written premium in 2001. Recognition of current-year reinsurance cessions as written premium results in the company recognizing negative annual net premiums written.

III. MANAGEMENT AND CONTROL

Board of Directors

The Connie Lee board of directors is comprised of four members. The directors are elected annually by the company's sole shareholder, and each director is elected to serve a one-year term of office. Corporate officers are elected at the annual meeting of the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Connie Lee directors are not paid any compensation for their services to the company as directors.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert J. Genader Westport, CT	President and Chief Operating Officer, Ambac Financial Group, Inc. and Ambac Assurance Corporation	2003
Frank J. Bivona Franklin Lakes, NJ	Vice Chairman and CFO, Finance and Investment Group, Ambac Financial Group, Inc. and Ambac Assurance Corporation	2003
Kevin J. Doyle White Plains, NY	Managing Director and General Counsel, Ambac Financial Group, Inc., Ambac Assurance Corporation	2003
Anne G. Gill New York, NY	First Vice President, Corporate Secretary and Assistant General Counsel, Ambac Financial Group, Inc., Ambac Assurance Corporation	2003

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2001 Compensation
Robert J. Genader	Chairman and Chief Executive Officer	$8,429,612
Frank J. Bivona	President and Chief Financial Officer	780,000
David L. Boyle	Vice Chairman	780,000
Gregg L. Bienstock	Managing Director	611,579
Kevin Doyle	Managing Director and General Counsel	509,000
Thomas Gandolfo	Managing Director	593,557

Annual compensation of the company's officers is paid by the holding company parent, Ambac Financial Group, Inc. The Group annually establishes an aggregate expense budget whereby a portion of various operating expenses including officer compensation is allocated and charged to various affiliated operating companies. Connie Lee is an inactive company in run-off, and is not allocated any portion of the compensation paid to its officers.

Committees of the Board

The company's bylaws allow for the formation of an Executive Committee and other committees of the board of directors. At the time of the examination, the company did not have any standing committees of its board of directors.

The board of directors of the company's holding company parent, Ambac Financial Group, Inc., has a standing audit committee that supervises a corporate-wide internal audit function. The audit committee reviews and evaluates internal audit issues and internal audit findings, and reports to the Ambac Financial Group, Inc. board of directors. The directors of Connie Lee attend and participate in the meetings of the board of directors of the parent company, are fully apprised of internal audit findings, and supervise internal control matters that pertain to Connie Lee Insurance Company.

IV. AFFILIATED COMPANIES

Connie Lee Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Ambac Financial Group, Inc.
Organizational Chart

- Ambac Financial Group, Inc.
  - Ambac Assurance Corporation
    - Ambac Credit Products, LLC
      - Ambac Credit Products Limited
    - Ambac Assurance UK Limited
    - Ambac Private Holdings, LLC
    - Ambac Japan Co., Inc.
    - Ambac Capital Services, LLC
    - Connie Lee Holdings, Inc.
      - Connie Lee Insurance Company
  - Ambac Financial Services Holding, Inc.
    - Ambac Financial Services, LP (1)
  - Ambac Capital Corporation
    - AME Holdings, LLC (2)
      - AME Investments, LLC
      - AME Asset Funding, LLC
    - AE Global Holdings, LLC (3)
      - AE Global Asset Funding, LLC
      - AE Global Investments, LLC
    - Ambac Securities, Inc.
    - Cadre Financial Services, Inc.
    - Ambac Capital Funding, Inc.
    - Ambac Asset Funding Corporation
    - Ambac Investments, Inc.
      - Ambac All Corp.
    - Ambac Conduit Funding, LLC
      - Aleutian Investments, LLC (4)
      - Juneau Investments, LLC (4)

(1) Joint venture ownership distribution: Ambac Assurance 90% and Ambac Financial Services Holding, Inc. 10%
(2) Joint venture ownership distribution: Ambac Capital Corporation 45%, MBIA 45%, and Radian Reinsurance, Inc. 10%
(3) Joint venture ownership distribution: Ambac Capital Corporation 50% and Radian Reinsurance, Inc. 50%
(4) Joint venture ownership distribution: Ambac Assurance 1% and Ambac Conduit Funding, LLC 99%

Ambac Financial Group, Inc. (Ambac Financial)

Ambac Financial Group, Inc. was incorporated on April 29, 1991 in the State of Delaware, and is the parent holding company entity for the Ambac Financial group. Ambac Financial provides various administrative services to its subsidiaries, including credit surveillance and risk management, legal services, regulatory compliance services, and investment management services. Subsidiaries of Ambac Financial provide financial guaranty insurance and other financial investment and service products to public and private finance business sectors.

As of December 31, 2001, Ambac Financial Group, Inc.'s audited GAAP basis financial statements reported total assets of $12.3 billion, total liabilities of $9.3 billion, and stockholders' equity of $3 billion. Operations in 2001 provided reported net income of $432.9 million.

Ambac Assurance Corporation (Ambac Assurance)

Ambac Assurance Corporation is a Wisconsin-domiciled property and casualty insurance company. Ambac Assurance is the successor corporation to the former insurer American Municipal Bond Assurance Corporation, which was initially incorporated under the laws of Wisconsin on February 25, 1970 and was the first insurer to provide financial guaranty of municipal bond securities. Ambac Assurance is the principal operating subsidiary of Ambac Financial Group, Inc., and provides financial guaranty insurance on credit obligations issued in three primary markets: the U.S. public finance market; the U.S. structured finance and asset-backed securities market; and the international credit obligation market.

As of December 31, 2001, Ambac Assurance Corporation's audited statutory basis financial statements reported total admitted assets of $5,303,205,143, total liabilities of $3,306,921,543, and policyholder's surplus of $1,996,283,600. Operations in 2001 provided reported net income of $394,558,869.

Connie Lee Holdings, Inc. (CL Holdings)

Connie Lee Holdings, Inc. is a wholly owned non-operating subsidiary of Ambac Assurance Corporation, and serves as the intermediate holding company parent of Connie Lee Insurance Company. Ownership of CL Holdings was acquired by Ambac Assurance effective December 18, 1997.

As of December 31, 2001, Connie Lee Holdings, Inc.'s unconsolidated GAAP basis financial statements (unaudited) reported total assets of $132,811,719, total liabilities of

$2,443,059, and total stockholders equity of $130,368,660. Operations in 2001 provided reported total income before taxes of $1,453,112.

Ambac Capital Corporation (ACC)

Ambac Capital Corporation was incorporated under the laws of Delaware on September 16, 1994. ACC serves as the intermediate holding company parent of financial services operating subsidiaries, and provides investment management and administrative services to affiliates.

Separate company financial statements are not prepared for Ambac Capital Corporation. The investment agreements of the subsidiaries of ACC represent the majority of ACC's assets, liabilities, and net equity. As of December 31, 1996, the unaudited GAAP basis combined financial statements for the Ambac Investment Agreements reported total assets of $5,407,267,672, total liabilities of $5,313,263,564, and total stockholders' equity of $94,004,108. Operations in 2001 provided net income of $1,648,752.

Affiliated Agreements

1. Expense Sharing and Cost Allocation Agreement – Effective January 1, 1997, Ambac Assurance and certain of its subsidiaries and affiliates entered into an expense sharing and cost allocation agreement. Connie Lee became a party to the agreement on January 1, 1998. Pursuant to the agreement, Ambac Assurance allocates a portion of its annual budget overhead expenses incurred to the participating subsidiaries and affiliates. Ambac Assurance also allocates to each respective subsidiary and affiliate direct costs incurred by Ambac Assurance that are paid on behalf of the respective subsidiary and affiliate.

2. Expense Sharing Agreement – Effective June 1991, Ambac Financial Group, Inc. and Ambac Assurance Corporation established an expense sharing agreement that provides that each party will be reimbursed on a monthly basis for services that it has provided to or expenses that it incurred on behalf of the other party. All allocation of expense is to be calculated on the basis of GAAP. Services and costs allocated between the parties include employee costs, equipment, facilities, tax settlement expenses, employee benefit expenses, and legal and directors expenses.

3. Tax Sharing Agreement – Effective July 18, 1991, a tax sharing agreement was established between Ambac Financial Group, Inc. and its subsidiaries. Pursuant to the agreement, Ambac Financial annually files a consolidated federal income tax return on behalf of itself and its subsidiaries. For each taxable period, each subsidiary's portion of the consolidated federal income tax liability of the group is the respective subsidiary's separate tax. A subsidiary's separate tax is determined as the federal income tax liability that the subsidiary would have if the subsidiary filed its own separate federal income tax return.

4. Reinsurance Agreement – Ambac Assurance Corporation and Connie Lee Insurance Company entered into an excess of loss reinsurance agreement effective December 18, 1997 in connection with the Ambac Assurance acquisition of Connie Lee. The agreement provides that Ambac Assurance will accept as excess loss reinsurance 100% of the annual aggregate incurred loss of Connie Lee in excess of the contract attachment point.

V. REINSURANCE

Connie Lee Insurance Company ceased writing new business in 1998 and its existing book of business is in run-off, resulting in the company having a limited reinsurance program. Under the company's reinsurance program Connie Lee does not have net retained assumed reinsurance exposure, and the company cedes to its parent a portion of the company's liability for existing risks that were written on a direct basis in prior years.

The company has various reinsurance assumption contracts in run-off under which there are currently no assumed premiums, and one treaty with MBIA Insurance Corporation on which there is immaterial business assumption. Effective January 1, 1998, the company commuted all business formerly assumed from Radian Reinsurance, Inc. (Radian) with the exception of one risk for which the company had previously recorded an estimated loss reserve liability. All of the business assumed by the company under its remaining run-off reinsurance assumption treaties is 100% retroceded to Radian pursuant to a facultative reinsurance treaty established January 1, 1998 with Radian.

The company cedes a portion of the risks on its existing book of business pursuant to a December 18, 1997 excess of loss reinsurance agreement with Ambac Assurance Corporation. The agreement specifies that Ambac Assurance Corporation will accept 100% of the company's incurred losses in excess of a specified attachment point. The attachment point is defined as policyholder surplus, as reported on Line 25 of the Company's Statutory Annual Statement, less $75 million.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the run-off of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the company's Aggregate Risk Limit calculation for 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Connie Lee Insurance Company
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$185,358,140		$185,358,140
Cash	101,801		101,801
Short-term investments	1,092,643		1,092,643
Federal and foreign income tax recoverable and interest theron	1,812,663	$1,702,990	109,673
Interest, dividends, and real estate income due and accrued	2,745,887		2,745,887
Total Assets	$191,111,134	$1,702,990	$189,408,144

Connie Lee Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Losses	$ 980,000
Loss adjustment expenses	12,209
Federal and foreign income taxes	2,570,846
Unearned premiums	51,793,623
Ceded reinsurance premiums payable (net of ceding commissions)	(693)
Payable to parent, subsidiaries, and affiliates	1,035
Payable for securities	12,377
Write-ins for liabilities:	
Mandatory contingency reserve for adverse losses	21,972,875
Total Liabilities	77,342,272
Common capital stock	15,000,000
Gross paid in and contributed surplus	97,927,599
Unassigned funds (surplus)	(861,727)
Surplus as Regards Policyholders	112,065,872
Total Liabilities and Surplus	$189,408,144

Connie Lee Insurance Company
Summary of Operations
For the Year 2001

Underwriting Income	
Premiums earned	$ 3,730,797
Deductions:	
Losses incurred	(6,000,000)
Loss expenses incurred	166,226
Other underwriting expenses incurred	414,194
Total underwriting deductions	(5,419,580)
Net underwriting gain	9,150,377
Investment Income	
Net investment income earned	10,980,775
Net realized capital losses	(234,345)
Net investment gain	10,746,430
Other Income	
Write-ins for miscellaneous income:	
Other miscellaneous income	53
Total other income	53
Net income before dividends to policyholders and before federal and foreign income taxes	19,896,860
Dividends to policyholders	0
Net income after dividends to policyholders but before federal and foreign income taxes	19,896,860
Federal and foreign income taxes incurred	4,374,601
Net Income	$15,522,259

Connie Lee Insurance Company
Cash Flow
As of December 31, 2001

Premiums collected net of reinsurance	$ (512,093)		
Loss and loss adjustment expenses paid (net of salvage or subrogation)	219,098		
Underwriting expenses paid	541,647		
Cash from underwriting		$(1,272,838)	
Investment income (net of investment expense)		11,006,381	
Other income (expenses):			
Agents' balances charged off			
Net funds held under reinsurance treaties			
Net amount withheld or retained for account of others	(342)		
Write-ins for miscellaneous items:			
Miscellaneous income	53		
Total other income		(289)	
Deduct:			
Federal income taxes paid		3,500,000	
Net cash from operations			$6,233,254
Proceeds from investments sold, matured, or repaid:			
Bonds	11,963,716		
Miscellaneous proceeds	18,630		
Total investment proceeds		11,982,346	
Cost of investments acquired (long-term only):			
Bonds	22,283,267		
Total investments acquired		22,283,267	
Net cash from investments			(10,300,921)
Cash provided from financing and miscellaneous sources:			
Net transfers from affiliates	1,035		
Other cash provided	37,963		
Total		38,998	
Net cash from financing and miscellaneous sources			38,998
Net change in cash and short-term investments			(4,028,669)
Reconciliation			
Cash and short-term investments, December 31, 2000			5,223,113
Cash and short-term investments, December 31, 2001			$1,194,444

Connie Lee Insurance Company
Aggregate Risk Limits
December 31, 2001

	Surplus to Policyholders as of December 31, 2001			$112,065,872	
	Contingency Reserve as of December 2001			21,972,875	
	Total				$134,038,747
Section					
A	Municipal Bond Insurance	$4,043,813,996	0.33%	13,478,032	
B	Investment Grade Asset Backed Securities	0	0.67	0	
C	Collateralized Guaranties or Guaranties of Less than 7 Years Investment Grade Industrial Development Bonds	0	0.01	0	
	Other Investment Grade Obligations	0	1.00	0	
D	Other Investment Grade Obligations	0	1.50	0	
E	Noninvestment Grade Consumer Debt Obligations	0	2.00	0	
	Noninvestment Grade Asset Backed Securities	0	2.00	0	
	Guaranties on Noninvestment Grade Obligations Secured by				
F	First Mortgages on Commercial Real Estate and having a Loan to Value Ratio of less than 80%	0	2.50	0	
G	Other Noninvestment Grade Obligations	0	4.00	0	
		$4,043,813,996			
	Minimum Surplus to Policyholders and Contingency Reserve				13,478,032
	Excess Surplus to Policyholders and Contingency Reserve as of December 31, 2001				$120,560,715

This schedule calculates the company's minimum capital requirements, based on calculation of aggregate risk limitation pursuant to Article 69 of the New York Insurance Laws. A Wisconsin domiciled financial guaranty insurer is subject to Wisconsin minimum capital and surplus requirements pursuant to s. Ins. 3.08 and s. Ins. 51, Wis. Adm. Code. Connie Lee is also subject to the minimum capital requirements of the New York Insurance Laws, which are more restrictive than Wisconsin requirements for certain segments of financial guaranty business. The New York aggregate risk limitation requirement serves as an industry standard for the evaluation of minimum capital requirements of a financial guaranty insurer, and is used as the minimum standard in Wisconsin. The risk limitation calculation is based on an insurer's guaranteed principal and interest in force on various classes of insured credit obligations.

Connie Lee Insurance Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1998	1999	2000	2001
Surplus, beginning of year	$93,652,810	$120,484,617	$142,850,453	$98,030,934
Net income	15,615,375	24,780,728	15,128,219	15,522,259
Change in net deferred income tax				1,711,163
Change in non-admitted assets	102,346	97,456	144,494	(1,665,028)
Change in provision for reinsurance	7,829,000			
Cumulative effect of changes in accounting principles				101,500
Dividends to stockholders			(58,071,625)	
Write-ins for gains and (losses) in surplus:				
Mandatory contingency reserve for adverse losses	3,285,086	(2,512,348)	(2,020,607)	(1,634,956)
Surplus, end of year	$120,484,617	$142,850,453	$98,030,934	$112,065,872

Connie Lee Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2001

The following table is a summary of NAIC Insurance Regulatory Information System (IRIS) analytical ratio results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the table of IRIS ratios.

	Ratio	1998	1999	2000	2001
#1	Gross Premium to Surplus	0%	0%	0%	0%
#2	Net Premium to Surplus	0%	0%	0%	0%
#3	Change in Net Writings	**-99%***	0%	0%	0%
#4	Surplus Aid to Surplus	0%	0%	0%	0%
#5	Two-Year Overall Operating Ratio	**999%***	0%	0%	0%
#6	Investment Yield	6.2%	6.4%	7.0%	6.1%
#7	Change in Surplus	**35%***	19%	**-31%***	14%
#8	Liabilities to Liquid Assets	49%	41%	47%	41%
#9	Agents' Balances to Surplus	0%	0%	0%	0%
#10	One-Year Reserve Devel. to Surplus	-11%	-11%	0%	-6%
#11	Two-Year Reserve Devel. to Surplus	-1%	-25%	-12%	-4%
#12	Estimated Current Reserve Def. To Surplus	0%	0%	-3%	0%

The exceptional ratios experienced in 1998 for ratio number 5, Two-year Operating Ratio, and ratio number 7, Change in Surplus, resulted from the 1,458% increase in estimated loss reserve liability recorded by Connie Lee in 1997. At the time of the 1997 acquisition of the company by Ambac Assurance, a comprehensive review of Connie Lee's portfolio of insured risks was performed by Ambac Assurance credit surveillance staff. The review resulted in significant reserve increases on eight insured credits, whereby Connie Lee's aggregate 1997 loss reserves increased to $29.2 million from $1.9 million at year-end 1996. The impact of the 1997 reserve increase distorted 1997 operating results and 1998 two-year analytical operating ratios. The 1997 reserve change and charge to operations contributed to a 19% decrease in surplus in 1997, which reversed in 1998 when reported operating results provided net income of $15.6 million and resulted in the large 1998 increase in surplus.

The 1998 exceptional result for ratio number 3, Net Change in Writings, was due to the company's 1998 discontinuation of writing new business.

The exceptional result in 2000 for ratio number 7, Change in Surplus, was due to the company's 2000 payment of a $58 million extraordinary dividend to its parent. The Wisconsin Commissioner of Insurance approved the dividend payment.

Run-off of Connie Lee Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1998	$234,425,505	$113,940,888	$120,484,617	$15,615,375
1999	242,755,126	99,904,673	142,850,453	24,780,728
2000	183,273,392	85,242,458	98,030,934	15,128,219
2001	189,408,144	77,342,458	112,065,872	15,522,259

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1998	$(54,370)	$(12,525,773)	$5,292,733	(190.1)%	(27.0)%	(217.1)%
1999	213,589	(484,911)	11,649,273	(79.9)%	(147.0)%	(226.9)%
2000	167,981	(733,304)	5,520,882	(9.1)%	(79.5)%	(88.6)%
2001	54,564	(511,000)	3,730,797	(156.4)%	(81.0)%	(237.4)%

The company experienced overall favorable loss development and profitable underwriting experience during the years under examination. The run-off of the company's business is reflected in the decrease of admitted assets, liabilities, and earned premium during the period, which decrease over time as the company's liabilities for policy risks and premium revenue stream decrease. The company's annual earned premium revenues are derived from earning current-year-coverage premiums on policies that were written in prior years, for which premiums were paid up-front for all policy coverage years and were recorded by the company as unearned premium liability. Remaining unearned premiums that are available to be earned as premiums in future years is decreasing annually as the book of business runs off, and equaled $51.8 million at year-end 2001.

Reconciliation of Surplus per Examination

The examination determined that there were no material misstatements of balance sheet accounts as reported by the company in its 2001 statutory financial statements, and did not make any reclassification of or adjustment to year-end balances reported by the company. The examination determined that the company's surplus as regards policyholders as of December 31, 2001 was $112,065,872.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were six specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Agreements—It is recommended that the company amend its Surveillance and Remediation Agreement such that it is being charged for only those credits which are being reviewed. If this agreement is cancelled and such services are provided under the Expense Sharing and Cost Allocation Agreement, the agreement should be written such that the company is only charged for those credits which are reviewed.

   Action—The Surveillance and Remediation Agreement was terminated effective December 31, 1998, and the prior recommendation is not applicable to the current examination.

2. Affiliated Agreements—It is recommended that the company abide by the terms of all intercompany agreements.

   Action—Compliance

3. Holding Company—It is recommended that the company complete its Holding Company Registration Statement in accordance with s. Ins 40.03 (b), Wis. Adm. Code.

   Action—Compliance

4. Bonds—It is again recommended that the company file stock acquisition reports for all securities not listed in the NAIC's Valuation of Securities Manual.

   Action—Compliance. The company is in compliance with all of the current NAIC requirements for reporting investment securities to the Securities Valuation Office of the NAIC.

5. Bonds—It is recommended that the company denote all securities which do not have an NAIC designation with a "Z" designation on Schedule D of the statutory annual statement.

   Action—Compliance. The company is in compliance with all of the current NAIC requirements for reporting NAIC investment securities designations on Schedule D of the company's statutory annual statements.

6. Payable to Parent, Subsidiaries, and Affiliates—It is recommended that the company investigate the nature of all affiliated balances and settle them within a reasonable period of time.

   Action—Compliance

Summary of Current Examination Results

Financial Reporting of Contingency Reserve Change

The examination determined that historically the company reported its current-period changes in statutory contingency reserves as a direct write-in change to surplus. Section 3.08 of the Wisconsin Administrative Code requires that changes in contingency reserves be recorded in the income statement, whereas NAIC codification of statutory practice prescribes that change in contingency reserves be recorded as change to surplus. Accounting for contingency reserve change as change to surplus is the standard reporting practice used in the financial guaranty insurance industry.

The company's historical practice for reporting statutory contingency reserve change was not in compliance with Wisconsin regulatory requirements and had not been authorized by the Commissioner. The examiners informed the company that the company should either report change in contingency reserves as an income statement transaction, in compliance with s. Ins. 3.08(7)(b), Wis. Adm. Code, or otherwise obtain permission from the Commissioner to waive the Wisconsin statutory reporting requirement. Subsequent to completion of examination fieldwork, the company obtained authorization from the Commissioner to continue reporting changes in contingency reserves as changes to unassigned surplus. The company is required to disclose in the notes to its statutory annual statements that the company reports contingency reserve change as change in surplus, in conformity with NAIC codification and as a Wisconsin permitted financial reporting practice, authorized and approved by the Commissioner.

VIII. CONCLUSION

Connie Lee Insurance Company was originally incorporated in 1968 as a Wisconsin domiciled insurance subsidiary of Sentry Insurance a Mutual Company. The company was acquired by College Construction Loan Insurance Association in 1987, and initiated operations in 1988 as a reinsurer of financial guaranty insurance for debt securities issued by higher education and teaching hospital institutions. The company operated as a reinsurer through 1991, at which time it initiated direct writing of financial guaranty risks. Ambac Assurance Corporation purchased ownership and control of the company in 1997, and the company discontinued writing new business and began to run-off its existing insurance risks in 1998. The company plans to continue the run-off of its business, and does not plan to resume direct issuance of insurance.

The examination determined that there were no material misstatements of account balances as reported by the company in its 2001 statutory financial statements, and did not make any adjustments or reclassifications of reported account balances. The examination determined that as of December 31, 2001 the company had total admitted assets of $189,408,144, total liabilities of $77,342,272, and policyholder’s surplus of $112,065,872.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Ryan Hanson	Insurance Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge